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SUBJECT: AZERBAIJAN-TURKEY: TIME FOR ADULT SUPERVISION?

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¶1. (SBU) On February 6, a representative of StatoilHydro, which has a production agreement with Azerbaijan for the Shah Deniz II gas, expressed concern to Econ Officer over the lack of progress on the Southern Corridor. He said that the major stumbling block remains the impasse between Azerbaijan and Turkey. He feels the only way to break this impasse is to bring the two sides together outside of the presence of interested third parties -- those who have commercial or transit issues at stake. He compared the current situation to that of the Baku-Tbilisi-Ceyhan project a few years ago, and said without direct intervention by the USG, this issue will not be resolved.

¶2. (SBU) Separately on February 19, Econ Officers discussed progress on the Southern Corridor with representatives from Nabucco partner RWE. RWE is pleased with the current progress on discussions for the Nabucco intergovernmental agreement (IGA) and the separate host government agreements (HGAs). RWE hopes that once the intergovernmental agreement and the separate host government agreements are in place, they will be able to sort out a supply arrangement for Turkey. "Why would Turkey go through the hassle if it was not intent on proceeding with the project" said one RWE rep. When Econ Officers raised the concerns expressed by StatoilHydro, RWE was still optimistic, but admitted that clinching the deal on Nabucco might not be as straightforward as it appears to them. They acknowledged that unless Turkey and Azerbaijan can come to an agreement over gas volumes and prices the transit agreements themselves will not make Nabucco a reality, but argued that it is in Turkey and Azerbaijan's best interest to reach such an agreement. RWE praised past Embassy Ankara and other USG efforts to keep Turkey on "the straight and narrow" road to opening the Southern Corridor. According to RWE, the folks in BOTAS understand the strategic importance of Nabucco, but the folks in the Turkish MFA need to be reminded from time to time.

¶3. (SBU) As for when USG pressure would be most helpful, RWE said "the time is not now, but the time is coming." RWE believes that once all the negotiations on the IGG and HGAs have been completed (most likely by some time in April) a strong push by the USG could give the project the final momentum it needs. Then might be the best time to "sit Turkey and Azerbaijan down in a room" to work out the final details.

Murray

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